MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2021/2022

BAW4634 – BUSINESS PLANNING TAXATION

(All Sections / Groups)

19 NOVEMBER 2021
9.00 a.m. – 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 16 pages including the cover page with **THREE** (3) Questions only.

2. Attempt **ALL** questions. The distribution of the marks for each question is given.

3. Please write all your answers in the Answer Booklet provided.

All questions are based on the Income Tax Act 1967 (as amended), Real Property Gains Tax Act 1976 (as amended), Sales & Service Tax Act 2018, Stamp Act 1949 (as amended) and legislations passed up to the year 2020.

QUESTION 1

Green-Veh Sdn. Bhd. (GV) is a newly established manufacturing company in Malaysia with a paid-up share capital of RM3 million. It commenced its business on 2 January 2020. The company manufactures green technology products and closes its accounts to 31 December annually.

GV is wholly-owned by Green-T Bhd. (Green-T), a company resident in Malaysia, a well-established manufacturer of solar energy solution products. It was incorporated on 1 February 2015 with a paid-up share capital of RM4.2 million. Green-T has been a sales tax registrant since 2019.

You are a tax consultant from ProTax Sdn. Bhd. You had a meeting on 20 December 2020 with the general manager from GV to discuss about the tax matters of the company. The extract from the notes of the meeting is as follows:

Extract from the notes of the meeting on 20 December 2020:

Supply of waste-water electricity generator

GV secures a contract from a company in Thailand to supply 200 units of waste-water electricity generator during the year 2021 at the price of RM2,800 per unit. Besides, GV will also earn income from the installation of the generators in 2021. Details are as follows:

	RM
Income from the installation of generators on site in Thailand	320,000
Expenses incurred for the installation	(180,000)
Profit from the installation project	140,000

The installation works will commence in October 2021 and take place entirely in Thailand.

Note: Please disregard the income tax impact of the provisions of any double taxation agreement.

Foreign expert

GV intends to engage Mr Eric from UK to head the technical team to provide technical advice to the project managers of the company for 5 months. GV expects to incur RM200,000 for Mr Eric's expertise. Mr Eric will be physically present in Malaysia while rendering his services.

Continued…

Acquisition of asset

GV intends to acquire a new asset costing RM1.2 million in the year 2021 to enhance its capacity to manufacture electric vehicles. The company plans to acquire the asset either through hire purchase or leasing.

Purchase of product from Green-T

GV will purchase a solar panel system from Green-T to be installed in its factory to reduce electricity consumption. GV is able to acquire the solar panel system at RM560,000, which is 20% lower than the market price.

Interest expense

GV plans to borrow a loan of RM2 million from a bank in Malaysia. RM1.8 million of the loan will be utilised to finance the investment in shares from Bursa Malaysia while the balance will be used as the business's working capital. The expected interest rate of the loan is 5.5% per annum. If the loan application is approved, GV will commence the instalment payment from October 2021 onwards.

Pre-commencement business expenses

GV has incurred the following expenses within one year before the commencement of its business:

	RM
Salaries and contributions to Employees Provident Fund (EPF)	230,000
Recruitment expenses	12,000
Training costs of employees	32,000

GV plans to include these expenses as part of the revenue expenses in the computation of its adjusted income for the Year of Assessment (YA) 2020.

Required:

i) Advise GV, with reasons, whether the following receipts are subject to Malaysian income tax for YA2021:

a) the supply of 200 units of waste-water electricity generator; (3 marks)

b) the profit of RM140,000 from the installation project (3 marks)

Continued…

ii) Explain Mr Eric's and GV's withholding tax obligations with relation to the RM200,000 technical payment. (6 marks)

iii) Explain the tax implications of acquiring the RM1.2 million worth of asset through hire purchase or leasing.

(5 marks)

iv) Explain to GV, whether or not the sales of solar panel system between Green-T and GV is subject to sales tax. Please provide the workings, if necessary, to support your answer. Assuming the solar panel system is a taxable good and the sales tax rate is 10%.

(4 marks)

v) Explain to GV the tax deduction applicable for interest expense for YA2021. Please provide the workings, if necessary to support your answer.

(6 marks)

vi) Advise GV whether its action to include the pre-commencement business expenses as part of the revenue expenses in calculating the adjusted income for YA2020 is appropriate. Justify your answer.

(5 marks)

vii) Explain to GV, THREE (3) safeguards that the company should observe before engaging your firm as its tax advisor.

(3 marks)

[Total: 35 marks]

Note: Assuming that the tax treatment in YA2021 is similar to YA2020 while answering Question1.

QUESTION 2

You are an ICAEW Chartered Accountant, working as a tax adviser. Mr Ee, who is a new client of your firm, is a sole-proprietor, operating a mini market registered as Ee Enterprise in Melaka.

Last week, you had a meeting with Mr Ee. He has provided the first draft of Ee Enterprise's statement of profit or loss for the year ended 31 December 2020 and some information about his year-end plan to you during the meeting. Below are the notes of the meeting.

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Notes of meeting:

Draft Statement of Profit or Loss of Ee Enterprise for the year ended 31 December 2020

	Note	RM	RM
Sales			1,290,000
Less: Cost of sales			(350,000)
Gross Profit			940,000
Add: Other income			
Compensation received	1		47,000
			987,000
Less: Expenses			
Salaries	2	280,000	
EPF contributions	3	33,960	
Utility expenses		208,000	
Depreciation		20,000	
Hire purchase loan interests		4,000	
Other operating expenses		299,000	844,960
Net profit before tax			142,040

Notes to the Statement of Profit or Loss:

1) The compensation received is derived from the cancellation of a contract from one of the business's suppliers. The cancellation of contract has a minimal impact towards Mr Ee's business. It was one of the many agreements entered by Ee Enterprise.

2) Salaries include RM55,000 for Mr Ee and RM35,000 for his daughter, Jane, who acts as the account clerk for the business.

3) Employees Provident Fund (EPF) contributions of 12% of salaries were paid for all staff, including Mr Ee himself and his daughter, Jane.

Other information:
Capital allowances for YA 2020 have been computed to be RM25,000 without taking into account the following information.

Machine (general)
A machine was acquired under hire purchase. The information about the the transaction is as follows:

	RM
Cash price	20,000
Deposit	8,000
Hire purchase loan (capital portion)	12,000

(There were 24 instalments commencing from 1 February 2020)

Continued…

Shop house

Mr Ee had acquired a shop house to expand his mini market business for RM650,000 from Teo Brothers Property Sdn. Bhd. on 30 November 2015. He incurred the renovation cost of RM100,000, legal fees of RM12,000, and stamp duty of RM10,500. In March 2018, due to flash flood, Mr Ee received a compensation of RM5,000 from the insurance company for the damage to the property.

On 6 January 2019, he received an offer from Tai Chong Trading to acquire the shop house and received a deposit of RM80,000. However, in February 2019, Tai Chong Trading decided not to pursue the transaction and the deposit was forfeited to Mr Ee. Mr Ee plans to dispose of the shop house on 29 November 2020 to Robin Trading Sdn. Bhd. for RM950,000 and is expected to incur RM11,500 on valuation fees and RM5,600 on legal fees in relation to the disposal.

Stock withdrawal and donation

Due to prolonged water supply disruption in Melaka, Mr Ee plans to withdraw 10 cartons of 5 litre mineral water costing RM500 from his mini market for his family's consumption. The market price of the 10 cartons mineral water is RM700.

Besides, Mr Ee is active in doing charity works. Recently, a representative from Caring House, an approved charitable institution, contacted him and asked for donation. Hence, Mr Ee is considering to donate 100 food baskets costing RM10,000, which the market price is RM15,000, to Caring House. The supply of the food basket items is expected to come from the inventory of Mr Ee's mini market.

Online business

Mr Ee plans to sell baking ingredients online tentatively on 1 January 2021. The new business venture is expected to incur a loss in the first year due to initial start-up costs, but is expected to generate profit in the second year. The financial forecast of his mini market and new online baking ingredients shop business for YA 2021 is as follows:

	Mini market business	Online baking ingredients shop	Other income
	RM	RM	RM
Adjusted income/ (loss)	250,000	(3,000)	
Capital allowance	30,000	20,000	
Interest income from fixed deposit			30,000

Continued…

Required:

i) Based on the draft of statement of profit or loss provided by Mr Ee, determine Mr Ee's statutory business income for year ended 31 December 2020.

Note: You should start your tax computation from the net profit before tax. Indicate by the use of the word 'nil' for any item referred to in the question for which no adjusting entry needs to be made in the tax computation. Show all workings.

(7 marks)

ii) Based on the information given, determine Mr Ee's liability to real property gains tax.

(7 marks)

iii) Referring to your answer in (ii), advice Mr Ee whether his plan to dispose of his real property on 29 November 2020 to Robin Trading Sdn. Bhd. is appropriate from the perspective of tax planning. Support your rationale with relevant tax computation.

(3 marks)

iv) Based on the information given, advise Mr Ee about the income tax treatment in respect of the goods to be withdrawn for private consumption and the donation made by him.

(3 marks)

v) Advise Mr Ee whether he should treat the mini market and online baking ingredients shop as (a) single business or (b) two separate businesses. Support your rationale with the relevant tax computation.

Note:Show your tax computation up to the level of 'total income' only.

(10 marks)

[Total: 30 marks]

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QUESTON 3

You are an ICAEW Chartered Accountant working as a tax consultant at PWT International Malaysia. Recently, Simon, one of your clients emailed you to seek for your professional opinion concerning his personal tax matters.

Simon is a Malaysian citizen who has been working in Singapore since the year 2018. He returned to Malaysia permanently to join his family since the year 2019. Simon's wife, Doreen Tan, is an entrepreneur and a Malaysian tax resident. The couple has a 13-year-old son.

The extract of Simon's email is as follows:

Date: 31 December 2020
Subject: To seek advice concerning personal tax matters.

Good day!
My name is Simon. I am 43 years old, a Malaysian who has been working in Singapore since the year 2018. I returned to Malaysia to join my family in year 2019. I started to serve Scientax Bhd., a listed company in Malaysia as a software engineer since 1 August 2020.

My wife, Doreen Tan, is a Malaysian and an entrepreneur. She operates a cafe in addition to her food delivery business. For your information, her cafe is not doing well due to Movement Control Order (MCO) implemented by the Malaysian government since March 2020. The adjusted loss of her cafe business for the year ended 31 December 2020 amounts to RM20,000. The business is entitled to claim a capital allowance of RM3,000 in the year 2020.

On the other hand, Doreen's food delivery business is still sustainable in the year 2020. It has been able to generate an adjusted income of RM30,000 for the year ended 2020. The business is eligible to a claim capital allowance of RM10,000 in year 2020. Besides business income, Doreen has also earned an adjusted rental income amounted to RM12,000 in year 2020.

Doreen is in dilemma whether to cease her cafe business and focus on her food delivery business or running the two businesses concurrently. Her cafe is expected to start making profit once the pandemic is over.

Doreen's father, Mr Jacky Tan, passed away on 31 May 2020 due to cancer. He was a resident and domiciled in Malaysia at the time of his death. According to my father-in-law's will, my wife, Doreen, has been appointed as the executor of his estate. My mother-in-law, Mrs Tan, is a resident and a full-time housewife. Doreen is the eldest daughter, who is currently 33 years old while her youngest brother, John Tan, is currently 25 years old.

Doreen and I have a 13-year-old son, Steve, who is currently studying in a Malaysian secondary school.

Continued…

I plan to buy a house in Melaka which costs RM520,000 in February 2021. I will pay 10% of the cost as the deposit and the balance will be financed by bank loan. This is my second property in Malaysia and I wish to know the amount of stamp duty payable to the tax authority for the said property.

I am writing to seek for your advice on how to manage our tax liabilities in Malaysia. I have attached all information with regards to my remuneration package **(Exhibit 1),** my wife's income in Malaysia **(Exhibit 2),** and the information about my late father-in-law's estate **(Exhibit 3)** for your perusal.

Hope to hear from you soon.
Thank you.

Exhibit 1

Details of Simon's employment income starting from 1 August 2020 are as follows:

- Gross salary per month of RM10,000.
- The Employees Provident Fund (EPF) contribution by the employer is 18% while the employee portion is 11%.
- Meal allowance of RM1,200 per month.
- Broadband subscription fee of RM89 per month, claimed through reimbursement basis from the employer.
- A new car costing RM100,000 without fuel is provided by the employer.
- A partially furnished semi-detached house equipped with furniture, air-conditioner, curtains and carpets in the lounge, dining room and bedroom with a monthly rental of RM1,200 is provided by the employer.

Continued…

Exhibit 2

Details of Doreen's income and expenses for the year ended 31 December 2020 are as follows:

	Business income	RM
•	Adjusted income from food delivery business	30,000
•	Capital allowance entitlement for food delivery business	10,000
•	Adjusted loss from cafe business	(20,000)
•	Capital allowance entitlement for cafe business	3,000
	Other income	
•	Adjusted rental income	12,000
	Personal expenses	
•	Deposit in Skim Simpanan Pendidikan Nasional (SSPN) account for the child	3,000
•	Premium paid on medical insurance policy for the child	1,000
•	Premium paid on education insurance policy for the child	1,200

Exhibit 3

Details of Mr Jacky Tan's estate for YA 2020 are as follows:

1	Food and beverage business	RM
	Adjusted income	250,000
	Capital allowance for YA 2020	35,000
	Capital allowance brought forward from YA 2019	11,000
	Balancing charge for YA 2020	27,000
2	Other income	
	Dividend income received from a Malaysian resident company in June 2020 (single tier).	12,000
	Interest income from fixed deposit account received from a Malaysian bank (credited in October 2020)	5,000
	Adjusted rental income from a residential property in Melaka	36,500
3	Annuity payable	
	Annuity payable to Mrs Tan in December 2020	30,000
4	Medical cost for Mr Jacky Tan's chemotherapy at Pantai Hospital Melaka	100,000

Continued…

5	Mr Jacky Tan's medical insurance premium for the period 1 January 2020 to 30 April 2020.	4,000

Required:

i) Compute the income tax payable of Simon and his wife, Doreen for the year of assessment 2020 under:

- separate assessment; and

- joint assessment.

Note: Simon will claim child relief under separate assessment. Assume that Doreen elects to have joint assessment with Simon. Indicate by the use of the word 'nil' or 'exempt' for any item referred to in the question for which no adjusting entry needs to be made in the tax computation. Round-up all figures to the nearest RM.

(10 marks)

ii) Based on your answer in (i), advise Simon, with reasons, whether he and his wife, Doreen should elect for joint assessment or separate assessment. (2 marks)

iii) Explain to Simon whether his wife, Doreen, should continue her cafe business or cease the business permanently. Support your rationale with relevant tax computation.

Note: Show your tax computation up to the level of 'total income' only. You may refer to Doreen's financial status in the year 2020 while drafting your tax computation.

(10 marks)

iv) Compute the total income for Mr Jacky Tan (the deceased) and his estate for YA2020. Round-up all figures to the nearest RM.

Note: Indicate by the use of the word 'nil' for any item referred to in the question for which no adjusting entry needs to be made in the tax computation.

(10 marks)

v) Determine the stamp duty payable by Simon. Assuming the tax treatment in YA2021 is similar to YA2020. (3 marks)

[Total: 35 mark]

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TAX RATES AND ALLOWANCES

The following tax rates, allowances and values are to be used in answering the questions.

- **Income tax rates for resident individuals for the Year of Assessment (YA) 2020.**

Chargeable Income	Calculations (RM)	Rate %	Tax(RM)
0 - 5,000	On the First 5,000	0	0
5,001 - 20,000	On the First 5,000 Next 15,000	1	0 150
20,001 - 35,000	On the First 20,000 Next 15,000	3	150 450
35,001 - 50,000	On the First 35,000 Next 15,000	8	600 1,200
50,001 - 70,000	On the First 50,000 Next 20,000	14	1,800 2,800
70,001 - 100,000	On the First 70,000 Next 30,000	21	4,600 6,300
100,001 - 250,000	On the First 100,000 Next 150,000	24	10,900 36,000
250,001 - 400,000	On the First 250,000 Next 150,000	24.5	46,900 36,750
400,001 - 600,000	On the First 400,000 Next 200,000	25	83,650 50,000
600,001 - 1,000,000	On the First 600,000 Next 400,000	26	133,650 104,000
1,000,001 - 2,000,000	On the First 1,000,000 Next 1,000,000	28	237,650 280,000
Exceeding 2,000,000	On the First 2,000,000 Next ringgit	30	517,650 .....

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- **Reliefs for the Year of Assessment (YA) 2020.**

	RM
Personal relief	9,000
Disabled taxpayer (additional relief)	6,000
Spouse relief	4,000
Disabled spouse relief (additional relief)	3,500
Medical expenses for parents	5,000
Parental care	1,500 per parent
Medical expenses for serious diseases (including medical examination expenses up to RM500)	6,000
Basic supporting equipment for disabled taxpayer, spouse, children, or parents	6,000
Child relief (18 years old and below) - Each - Disabled	 2,000 6,000
Child relief (over 18 years old and studying in higher learning institutions) - Each - Disabled	 8,000 14,000
Amount deposited into SSPN for child	8,000
Life insurance premium	3,000
EPF contributions	4,000
Premium on deferred annuity contract and private retirement scheme	3,000
Premium on medical/education insurance	3,000
Employee's contribution to SOCSO scheme	250
Education fees paid by taxpayer for his own self-improvement	7,000
Lifestyle expenses	2,500
Breastfeeding equipment	1,000
Fees paid to childcare centre and kindergarten	3,000

- **Rebates**

Rebates	**RM**
Chargeable income <= RM35,000	
Individual	400
Additional relief when wife/husband relief is claimed	400

Continued…

- **Benefits-in-kind (BIK) scale rates as per Inland Revenue Board (IRB) guidelines**

Cost of car when new	Annual prescribed benefit of motorcar	Annual prescribed benefit of petrol
RM	**RM**	**RM**
Up to 50,000	1,200	600
50,001 - 75,000	2,400	900
75,001 - 100,000	3,600	1,200
100,001 - 150,000	5,000	1,500
150,001 - 200,000	7,000	1,800
200,001 - 250,000	9,000	2,100
250,001 - 350,000	15,000	2,400
350,001 - 500,000	21,250	2,700
500,001 and above	25,000	3,000

The value of the car benefit equivalent to half of the above rates is taken if the car provided is more than five years old.

- **Prescribed value of household furnishings, apparatus and appliances**

Category	Type of Benefit	Annual Prescribed value of BIK provided RM
1	Semi-furnished with furniture in the lounge, dining room or bedroom.	840
2	Semi-furnished with furniture as in Category 1 and one or two of the following: • air-conditioners • curtains and alike • carpets	1,680
3	Fully furnished with benefits as in Category 1 and 2 plus one or more of kitchen equipment, crockery, utensils and appliances.	3,360

Other benefits	**RM per month**
Household servant	400
Gardener	300
Driver	600

Continued…

- **Rates of Capital Allowances**

	Motor Vehicles/ Heavy Machinery	**Plant & Machinery (general)**	**Office Equipment, Furniture & Fittings, Others**	**Industrial Building**
Initial allowance	20%	20%	20%	10%
Annual allowance	20%	14%	10%	3%

- **Real property gains tax**

DISPOSAL PERIOD	**TAX RATE FOR YEAR OF ASSESSMENT 2020**		
	PART I Other than Part II and Part III [eg: Malaysian citizen individual, Malaysian permanent resident, partnership, executor of the estate of a deceased person who is a citizen or a permanent resident]	PART II Company incorporated in Malaysia or trustee of a trust	PART III Individual who is not a citizen and not a permanent resident, or an executor of the estate of a deceased person who is not citizen and not a permanent resident, or a company not incorporated in Malaysia.
Disposal within 3 years after the date of acquisition	30%	30%	30%
Disposal in the 4th year after the date of acquisition	20%	20%	30%
Disposal in the 5th year after the date of acquisition	15%	15%	30%
Disposal in the 6th year after the date of acquisition	5%	10%	10%

- **Sales and service tax**

	Rate %
Sales tax	10
Service tax	6

- **Stamp duty**

Rates of duty under the First Schedule
Conveyance, assignment, transfer or absolute bill of sale

Continued…

	Rate %
Sale of property - from 1.7.2019 onwards	
First RM100,000	1
RM100,001 to RM500,000	2
RM500,001 to RM1,000,000	3
>RM1,000,000	4
House loan agreement	0.5
Transfer of shares or marketable securities	0.3
Transfer of shares or marketable securities by using contract note	0.1

End of paper